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1 July 1959

THRU : Deputy Chief, Industrial Division, ORR

Chief, Manufacturing Sectors Branch, D/I

Manufacturing Sectors Branch, D/I

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Comments on IP-59-15 (ORR Contribution to China NIE) and Other Matters Pertaining to the Production of the NIE.

### 1. General Appraisal

This study appears to be a sober and carefully balanced assessment of the benefits and costs of the "leap forward" of 1958 and the prospects for further growth through 1962. It obviously benefits from the Chinese Communists' own critical evaluation of the strains and dislocations produced by their indiscriminate mass campaigns. Before this development the prevailing mood in A/F (undoubtedly influenced by glowing but somewhat inaccurate reports of success) was such that scepticism voiced by a number of D/I and D/M analysts found little acceptance. While the study under review concludes that the prospects for future growth are reasonably favorable, it shows increased awareness of the costs as well as the benefits of the mass labor drives of 1958. Although estimates of production levels in 1962 have been raised on the basis of performance in 1958, the study recognises unique aspects of this growth which cannot be continued indefinitely and scales down growth rates for the latter part of the period 1958-62 accordingly.

### 2. Specific Comments

a. The study discusses the inappropriateness of the Soviet model and modifications thereof (see pp. 7, 9, 10, 12).

b. We do not agree with the characterization and implications of underlined words on p. 3. Insofar as machine building is concerned, it is true that equipment has deteriorated under the rigors of the "leap forward" but the suggestion of imminent collapse is nonsense.

c. Underlined portion of page 56 is doubtful, assuming continued high priority for steel-making in Communist China.

### 3. Utilization of D/I Contributions

The decision to eliminate extensive contributions from commodity analysts has been amply justified. Additional consultation with I/PE analysts was necessary in some cases, but only to resolve questions which A/F had raised. Wasted effort, therefore, has been considerably reduced.

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**SUBJECT: Comments on I/P-79-35 (CIA Contribution to China HIE) and Other Matters Pertaining to the Production of the HIE.**

Discussion of light industry was fairly adequate (see pp. 30, 56) but of such a general nature as to suggest that future contributions should be more brief.

Contribution of I/MS on foreign trade is not reflected in this study but will probably be incorporated in a more detailed S/TF paper.

Contribution of I/MS on general trends in the machine building industry (e.g. on p. 22) was not extensively utilized, but the material that was used faithfully reflected our views. That our discussion of decentralization, prices and costs, self-sufficiency and investment in small-scale plants was discontinued is probably due to fact that the terms of reference were formulated too hastily in September 1958. Unfortunately, this well-intentioned measure was taken too early in the judgment of the "loop forward" for adequate grasp of the factors that were to be relevant the estimate.

**4. Comments on Contributions from Commodity Analysts**

In preparing the I/I contribution to the HIE the participation of commodity analysts varied considerably. This was done deliberately, the extent of the contribution called for depending primarily on the availability of pertinent information. A small contribution, therefore, does not reflect adversely against any analyst. Individual analysts deserve recognition for their contributions as follows:

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[REDACTED] (I/MS)

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In the absence of quantitative data [REDACTED] provided a crisp, concise analysis of the situation in the chemical equipment industry. This was considered of such significance that it was submitted as an appendix to the I/I contribution.

[REDACTED] (I/MS) 25X1A9a

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Besides production estimates [REDACTED] provided an analysis of plant capacity, broken down by type of control, and self-sufficiency. His suggestion in treating Chinese domestic statistics has apparently been fully justified. It was determined that an elaborate study of cost-prime material for a production index would not be worthwhile at this time.

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[REDACTED] (I/MS)

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[REDACTED] provided revised production estimates on electronic items from a recently completed study.

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[REDACTED] (I/RS)

25X1A9a [REDACTED] provided a well-documented analysis of the problems of the motor vehicle industry, expansion plans, self-sufficiency, etc. Price and cost data were exceptionally good and provided a reliable basis for a portion of the production index.

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[REDACTED] (I/RS)

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[REDACTED] On the basis of new cost information [REDACTED] made a large contribution to the construction of a production index for machine building. He also provided a brief analysis of the development of the locomotive and rolling stock industry since 1950.

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[REDACTED] (I/RS)

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[REDACTED] Besides production estimates [REDACTED] provided very useful data on value of output of merchant vessels for a production index. This was based on his year-dollar studies of shipbuilding in Communist China.

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[REDACTED] (I/RS)

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[REDACTED] submitted revised estimates on agricultural equipment and compiled existing price and cost data for the production index. He also provided an analysis of shifts in production of new machinery away from blind imitation of bloc designs.

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[REDACTED] (I/RS)

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[REDACTED] completed a pioneer survey of the field of production of metallurgical equipment. This study probably can be developed into an independent RI or IM. This would seem desirable in the light of the conclusions reached in the publication reviewed above. [REDACTED] knowledge of the bloc's position in rolling mills was brought to bear in review of A/T's working draft in the office of Chief, D/A.

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[REDACTED] (I/RS)

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When the R/I contribution was initially presented [REDACTED] had had very little time to familiarize himself with the highly fragmented information on the electrical equipment industry. Before final estimates were submitted to A/T, however, he had digested this material so that he felt confident in disregarding the official figure for production in 1950.

George  
Washington

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**SUBJECT:** Comments on IP-99-15 (OSR Contribution to China NIE) and Other Notices Relating to the Production of the NIE.

In addition to use for the NIE some contributions, especially those of ██████████ were extensively and unashamedly "plagiarized" in OME Project 39-2078. 25X1A9a

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**Distribution:**

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MURKIN

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